

Audit and Compliance Committee Meeting  
Gatton Student Center, Harris Ballroom  
Thursday, April 25, 2024

The Audit and Compliance Committee (ACC) met on April 25, 2024, in the Gatton Student Center Harris Ballroom.

I. Call to Order

Chair Ray Daniels called the meeting to order at 12:32 p.m.

II. Roll Call

The following members of the ACC were in attendance: Cathy Black, Janie Greer, Kim Scott McCann, Elizabeth McCoy, Paula Pope and Hollie Swanson.

Trustee Claude “Skip” Berry III attended the meeting via Zoom.

III. Approval of Minutes – February 22, 2024

Chair Daniels reported that the minutes of the February 22, 2024, meeting had been distributed. Trustee McCoy motioned to approve the minutes, and Trustee Greer seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. Update on UK Internal Audit’s Activity Related to UK’s Reporting Tools

Chair Daniels introduced Chief Accountability Officer and Audit Executive Joe Reed to present UK Internal Audit’s (UKIA) reporting tools. To begin, Mr. Reed denoted the people, services and processes related to this activity. Mr. Reed explained that UKIA uses the Association of Certified Fraud Examiners (ACFE) *Report to the Nations* publication to better understand global fraud trends. The ACFE’s 2024 report determined that organizations lose an average of five percent of their revenue to fraud each year. The report also noted that 32 percent of frauds occurred due to a lack of internal controls, 19 percent occurred because existing controls were overridden by management and 18 percent were due to a lack of management review. Mr. Reed stated that these findings highlight the necessity of maintaining an effective internal control environment and monitoring processes and noted that, in addition to theft/misappropriation schemes, UKIA also considers abusing one’s authority as well as wasting materials and/or labor during its reviews.

Mr. Reed then detailed the reporting mechanisms section of the report. Again quoting from the 2024 ACFE Report, he stated that 43 percent of fraud schemes were identified due to reported tips, 14 percent were detected by internal audit and 13 percent were found during a management review. Additionally, most tips were reported via a web-based form or by telephone, and more than half of the tips came from employees. He noted that the University of Kentucky, however, receives about 90 percent of its tips from employees.

Expanding on UK's particular results, Mr. Reed noted that tips to UK come from three sources: UKIA's online web-form, the comply line and contacts made with stakeholders or during audits. In FY 2022-23, UK received 250 comply line calls and 14 web-form submissions. As of April 3, 2024, UK had received 200 comply line calls and 12 web-form submissions for FY 2023-24.

Mr. Reed explained that UKIA classifies tips it receives by presidential cabinet area and forwards tips outside its purview to the appropriate party. However, UKIA enters all tips into its audit universe database so that they are captured in UKIA's risk assessments.

Mr. Reed further detailed the comply line calls, noting that they generally fall into three categories: reportable, follow-up or informational. Reportable calls are tips that detail a concern or allegation. Follow-up calls are related to previously reported issues, usually to provide additional information or check the status of the original call. Lastly, informational calls are information requests. Calls related to UK HealthCare comprised 134 of the 149 reportable tips that came in through the comply line in FY 2022-23 and 94 of 113 reportable tips in FY 2023-24. Mr. Reed attributed this to the highly regulated nature of health care as well as UK HealthCare's extensive training on how its employees should report such concerns.

Transitioning to stakeholder contacts and auditor outreach, Mr. Reed explained that these communications stem from UKIA's reputation of being approachable and trustworthy. Stakeholder contacts include process owners, management and other personnel across the enterprise. Auditor outreach as a source includes information conveyed to auditors during reviews in one of UKIA's 10 service lines, post-audit check-ins, ongoing data analytics or UKIA's training.

Mr. Reed then detailed UKIA's inquiry and investigation process, which starts with an evaluation of the information that comes through these three sources. UKIA analyzes this information weekly and stores it in the audit universe database, categorizing it as a process or unit and documenting any associated applications. UKIA then determines if the information requires an inquiry, during which UKIA first works to validate the concern, then communicates the results to the appropriate parties. Inquiries, even if unsubstantiated, may identify vulnerabilities within a unit or process that are also communicated to the unit and/or appropriate process owner. Substantiated tips are escalated to an investigation, during which UKIA confirms the details of the incident, quantifies the losses and communicates the results to University administration and relevant stakeholders. This communication process enables units to connect with process owners or experts who can assist with remediating issues. Mr. Reed explained that the inquiry and investigation process must be handled carefully to avoid libel.

UKIA works with several partners during these processes, including Human Resources, the Office of Legal Counsel, the UK Police Department and other compliance entities as necessary. In some cases, UKIA uses the expertise of Information Technology Services and/or external consultants.

Trustee Swanson asked if an allegation made against an employee while working in one department would be available to another department if the employee changed positions. Mr. Reed said in most cases, no. If the allegation was unsubstantiated, UKIA would have no comment on the subject.

B. Executed FY 2023-24 Audit Engagement Letter and Agreed-up Procedures Letters for the NCAA, Department of Behavioral Health, Developmental and Intellectual Disabilities and Kentucky Medical Services Foundation

Chair Daniels introduced Treasurer Penny Cox to present the FY 2023-24 audit engagement letter and agreed-upon procedures (AUP) for the National Collegiate Athletics Association (NCAA), Department of Behavioral Health, Developmental and Intellectual Disabilities and Kentucky Medical Services Foundation. Ms. Cox explained that this engagement letter with FORVIS was approved by the ACC during the February 2024 Board of Trustees meeting. The scope of the engagement is approximately \$694,000.

The University's primary responsibility is to prepare financial statements in accordance with the Generally Accepted Accounting Principles and submit the audit to the state by the October 4, 2024 deadline.

The first AUP is for the NCAA and is required to verify the accuracy and completeness of the financial data for the University's Department of Intercollegiate Athletics. The second AUP is for the Department of Behavioral Health, Developmental and Intellectual Disabilities to verify the University's compliance with its contract between Eastern State Hospital and the Central Kentucky Recovery Center. The third AUP is for the University's contract with the Kentucky Medical Services Foundation. Ms. Cox said that this year's agreed upon procedures included no notable changes.

The ACC had no questions for Ms. Cox.

C. FORVIS Pre-audit Report to the Audit and Compliance Committee

FORVIS Engagement Partner Mary McKinley and Managing Partner David Tate then presented their 2023-24 pre-audit report. Ms. McKinley explained the pre-audit report is a required communication to those charged with governance, and it outlines FORVIS' planned timing, scope and focus areas for the upcoming audit. The scope includes an audit of the financial statements for the period ending June 30, 2024, for the university and its affiliates, an audit of the basic financial statements of certain University organizational units and AUPs for the three entities detailed by Ms. Cox in her report. The pre-audit report also referenced the provision of several other services.

FORVIS met with the University's finance team in February 2024 to outline the planning process. FORVIS has also started preliminary planning discussions with various University members to determine if there are any specific areas of focus needed this year. FORVIS' information technology team is scheduled to arrive in mid-May to begin their portion of the engagement, while the audit team members have already started their planning activity, including conducting internal control walkthroughs and documentation. Ms. McKinley said that

the team's fieldwork phase should begin during the last week of July.

Ms. McKinley then detailed two new auditing standards: Statement on Auditing Standards (SAS) 145 and SAS 148. SAS 145 relates to documenting estimates inherent to the financial statements, and SAS 148 relates to the testing of federal funds under uniform guidance. SAS 148 will require different testing approaches than previous audits, such as higher sample sizes. Ms. McKinley noted that these are nationwide accounting changes, not FORVIS standards.

Ms. McKinley then outlined the audit focuses, which include self-insurance reserves, the valuation of alternative investments, contractual allowances, patient accounts receivable valuations and compliance with uniform guidance. Two of the largest programs to be assessed this year will be Student Financial Aid as well as Research and Development.

The ACC had no questions for Ms. McKinley.

V. Adjournment

With no further business to come before the Committee, Chair Daniels adjourned the meeting at 1:09 p.m.

Respectfully Submitted,

Skylar Bensheimer  
Editorial Assistant  
UK Internal Audit